

Statewide Health Care Insurance Plan Task Force

State Employee Health Plan Self-funding Survey

Arizona Health Care Cost Containment System

January 2002

Introduction

In response to a request from the Statewide Health Care Insurance Plan Task Force, William M. Mercer, Incorporated (Mercer) conducted a survey of all 50 states to obtain information regarding funding of their employee health care plans. A copy of the survey questions used by Mercer is included as an attachment to this report. Through telephonic interviews of state human resource personnel and Mercer consultants in various offices who work with or on state employee benefit plans, data was gathered for all fifty states. The results of that survey are reflected in this report. Additional detail and a results summary are also attached.

The questions asked by the Task Force were in follow-up to a report Mercer presented at the request of the Task Force in October 2001. The report titled "Review of Self-Insuring of Health Benefits" compared self-funding with other funding methodologies used by employers. Questions asked by Task Force members included:

- which states self-fund,
- can additional populations participate,
- do any states perform their own plan administration,
- what are the levels of risk tolerance, and
- are any of the self-funding programs part of larger statewide health insurance reform initiatives.

States That Self-fund

Thirty-four (68%) of the fifty states responding currently self-fund at least one of their employee health care plans. Those states are:

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| ▪ Alabama | ▪ Alaska | ▪ California | ▪ Delaware | ▪ Florida |
| ▪ Georgia | ▪ Illinois | ▪ Indiana | ▪ Kansas | ▪ Louisiana |
| ▪ Maryland | ▪ Massachusetts | ▪ Michigan | ▪ Minnesota | ▪ Mississippi |
| ▪ Missouri | ▪ Montana | ▪ Nevada | ▪ New Jersey | ▪ New Mexico |
| ▪ North Carolina | ▪ Ohio | ▪ Oklahoma | ▪ Pennsylvania | ▪ South Carolina |
| ▪ South Dakota | ▪ Tennessee | ▪ Texas | ▪ Vermont | ▪ Virginia |
| ▪ Washington | ▪ West Virginia | ▪ Wisconsin | ▪ Wyoming | |

Of the sixteen states that do not currently self-fund, the following five are considering implementing a self-funded program in the future.

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| ▪ Arizona | ▪ Arkansas | ▪ Nebraska | ▪ New Hampshire | ▪ Oregon |
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Of the thirty-four states that currently self-fund, the following thirteen states (38.2%) self-fund all of their health plan offerings.

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| ▪ Alabama | ▪ Alaska | ▪ Delaware | ▪ Minnesota | ▪ Mississippi |
| ▪ New Mexico | ▪ North Carolina | ▪ Oklahoma | ▪ Pennsylvania | ▪ South Dakota |
| ▪ Tennessee | ▪ West Virginia | ▪ Wyoming | | |

Effective January 1, 2002, Arkansas, Montana and Vermont will also self-fund all of their health plan offerings. The remaining states self-fund at least one of their health plans.

Those offering a combination of self-funded and fully insured plans generally self-fund an Indemnity, PPO, EPO and/or POS plan, while fully-insuring their HMOs.

Four states reported that they have self-funded their employee health plans for over thirty years. On average, the length of time states have self-funded at least one employee health plan is approximately fifteen years.

Additional Populations

Twenty-five (73.5%) of the thirty-four states with self-funded plans currently allow additional employee populations to participate in the plans. Those states are:

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| ▪ California | ▪ Delaware | ▪ Georgia | ▪ Indiana | ▪ Kansas |
| ▪ Louisiana | ▪ Maryland | ▪ Massachusetts | ▪ Minnesota | ▪ Mississippi |
| ▪ Nevada | ▪ New Jersey | ▪ New Mexico | ▪ North Carolina | ▪ Oklahoma |
| ▪ South Carolina | ▪ South Dakota | ▪ Tennessee | ▪ Texas | ▪ Vermont |
| ▪ Virginia | ▪ Washington | ▪ West Virginia | ▪ Wisconsin | ▪ Wyoming |

The populations allowed to participate vary by state, but include counties, cities, towns, municipalities, principalities, irrigation/water districts, independent state agencies and political subdivisions. Many states also consider state university and community college employees as state workers and offer the state self-funded plan as an option. Although less common, a few states offer the state sponsored self-funded plan to local school districts. Of the nine states with self-funded plans that do not allow groups other than state employees to participate, the following five are actively considering changing this policy in the future.

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| ▪ Florida | ▪ Missouri | ▪ Montana | ▪ Ohio | ▪ Pennsylvania |
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Plan Administration

All states with self-funded plans contract with outside vendors to provide some type of administrative service. Services include claims payment, utilization review, disease management and pharmacy benefit management. The state of Louisiana is the only state reporting that claims administration and payment is handled in-house, while

Pennsylvania pays a limited number of claims internally for their supplemental medical plan.

Risk Tolerance

Minnesota, Missouri and Vermont are the only three states that purchase stop-loss or reinsurance coverage. All three purchase only “specific” coverage (i.e., coverage based on individual claimant totals). The level of coverage for these three states varies depending on the plan. The remaining states with self-funded coverage assume all risk for those plans.

An additional question was asked regarding general historical cost experience. Responses were not received from all survey participants. In addition, the question was worded in such a way that responses could be considered subjective. Subsequently, results to this question were not tallied and are not provided as part of this report.

Statewide Health Insurance Reform Initiatives

None of the states reported that they are including their employee health plans as part of larger statewide health insurance reform or expansion initiatives.

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State Employee Health Plan Funding Survey Questions

1. Do you currently self-insure any of the medical plans you provide for your employees?
2. If no, are you considering implementing self-funding in the next year?
3. If yes, which medical plans are self-insured and which are fully insured?
4. How long have you provided self-insured coverage?
5. Do you currently allow other populations to participate in the self-funded plan?
6. If yes, which other populations?
7. Are you considering allowing others to participate?
8. If yes, which other populations?
9. Do you contract with outside vendors for any administrative services for your self-funded plan?
10. If yes, which services do you contract for? Claims administration? Utilization management? Disease management? Stop loss? Other?
11. If no, do you perform any of those services in-house? Which ones?
12. Is your self-funded employee plan part of larger statewide health insurance reform/expansion initiatives?
13. Do you purchase stop loss coverage?
14. If yes, Specific/Individual? If so, what is the attachment point? Aggregate? What level is the attachment point?
15. If yes, how much do you pay per employee per month for this service?
16. Has your historical cost experience been favorable? (Have costs remained stable or increases in claims remained low?)